

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Clio, Michigan</u>	County Genesee
Audit Date June 30, 2005	Opinion Date September 12, 2005	Date Accountant Report Submitted To State: December 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Clio, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Clio, Michigan

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# City of Clio, Michigan

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## Independent Auditor's Report

To the City Council  
City of Clio, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clio (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council  
City of Clio, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 12, 2005

# City of Clio, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Clio's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- Legal services were approximately \$30,000 over the original budget. The settlement with the firm Tomkiw Dalton was \$27,500 accounting for almost all of the overage.
- The Office of the City Clerk was approximately \$27,000 over the original budget. The clerk was hired on July 7, 2004 and the City kept Doreen West as deputy clerk until the middle of August at \$20 per hour. Also, the clerk's department hired a part-time deputy clerk and a Co-Op student mid-way through the year. The clerk's department was therefore under-budgeted for its staffing needs at the beginning of the year.
- The City's municipal building and grounds were approximately \$18,000 over the original budget due to not budgeting the liability insurance at the beginning of the year. This department would have been under budget otherwise.
- The parks department was approximately \$12,000 over the original budget due to wages and benefits. This was a result of cement work and flood repair to the parks system.
- The police department was approximately \$37,000 under the original budget due to the replacement of two full-time positions with part-time workers. This saved on wage and benefit expenses.
- The Department of Public Services was approximately \$20,000 under the original budget due to over budgeting of benefits, longevity, and capital outlay.
- The above department's overages and savings caused the City to go into fund balance by approximately \$28,000, leaving a starting balance of approximately \$198,500 for the fiscal year 2005-2006.
- The City issued a Bond Anticipation Note in the 2003-2004 fiscal year in the amount of \$300,000 to start work on the W. Vienna 12" water line and two sewer relining projects. The City issued a \$950,000 bond to pay off the Bond Anticipation Note and complete the above-mentioned projects.

# City of Clio, Michigan

## Management's Discussion and Analysis (Continued)

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date as compared to the prior year amounts (in thousands of dollars).

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current assets	\$ 1,008	\$ 1,100	\$ 1,237	\$ 747	\$ 2,245	\$ 1,847
Noncurrent assets	<u>1,987</u>	<u>1,604</u>	<u>1,870</u>	<u>1,234</u>	<u>3,857</u>	<u>2,838</u>
Total assets	2,995	2,704	3,107	1,981	6,102	4,685
<b>Liabilities</b>						
Current liabilities	158	210	569	85	727	295
Long-term liabilities	<u>641</u>	<u>700</u>	<u>1,440</u>	<u>870</u>	<u>2,081</u>	<u>1,570</u>
Total liabilities	<u>799</u>	<u>910</u>	<u>2,009</u>	<u>955</u>	<u>2,808</u>	<u>1,865</u>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	1,418	1,043	497	490	1,915	1,533
Restricted	431	515	-	-	431	515
Unrestricted	<u>347</u>	<u>236</u>	<u>601</u>	<u>536</u>	<u>948</u>	<u>772</u>
Total net assets	<u>\$ 2,196</u>	<u>\$ 1,794</u>	<u>\$ 1,098</u>	<u>\$ 1,026</u>	<u>\$ 3,294</u>	<u>\$ 2,820</u>

The City's combined net assets increased approximately 17 percent from last year.



# City of Clio, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year as compared with the prior year (in thousands of dollars).

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 227	\$ 227	\$ 969	\$ 878	\$ 1,196	\$ 1,105
Operating grants and contributions	184	248	-	-	184	248
Capital grants and contributions	330	352	-	-	330	352
General revenue:						
Property taxes	785	732	-	-	785	732
State-shared revenue	348	307	-	-	348	307
Unrestricted investment earnings	25	14	14	5	39	19
Franchise fees	23	23	-	-	23	23
Miscellaneous	24	6	-	-	24	6
Total revenue	1,946	1,909	983	883	2,929	2,792
<b>Program Expenses</b>						
General government	412	658	-	-	412	658
Public safety	630	464	-	-	630	464
Public works	178	215	-	-	178	215
Highways and streets	158	148	-	-	158	148
Community and economic development	11	74	-	-	11	74
Recreation and culture	118	128	-	-	118	128
Interest on long-term debt	37	28	-	-	37	28
Water	-	-	511	416	511	416
Sewer	-	-	400	388	400	388
Total program expenses	1,544	1,715	911	804	2,455	2,519
<b>Change in Net Assets</b>	<b>\$ 402</b>	<b>\$ 194</b>	<b>\$ 72</b>	<b>\$ 79</b>	<b>\$ 474</b>	<b>\$ 273</b>

### Governmental Activities

As this is the second year of implementation for GASB No. 34, comparative information on a government-wide basis is now available for the years ended June 30, 2005 and 2004. Overall, the net assets increased during the current year by approximately \$402,000 vs. \$194,000 in the prior year, in large part due to overall increases in the City property tax values and the City's efforts to keep expenses under control through budgeting efforts.

# **City of Clio, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit water system. We provide sewage treatment through a County-owned and operated sewage treatment plant. In addition, the City's water loss has continued to decrease. We had higher than anticipated water sales bringing in approximately \$80,000 over the original estimates for water usage revenue. The above-mentioned items helped increase the Water Fund balance in the current year. The Sewer Fund shows an operating loss of approximately \$17,000. The operating loss does not reflect the true picture as there were some unanticipated repair and maintenance costs on Butler Street in 2005.

### **The City's Funds**

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2005 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Public Improvement Fund, and the Major Street Construction Fund.

The General Fund pays for most of the City's governmental services. The most significant are general government and public safety, which incurred expenses in excess of \$1,016,000 in 2005. General Fund activities include the cost of day-to-day operations to run the City. In addition, the City Commission, city administrator, city clerk, and city treasurer departments, as well as planning and assessing, are part of the General Fund activities. Public safety consists of police protection and the City's contribution to the Clio Area Fire Authority. With total expenses for the General Fund at approximately \$1,234,000, you can see that these two activities make up a major portion of the total.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. The most significant changes were to increase the estimated City Hall expense, legal service expense, clerk's office, and parks expense. The General Fund overall was approximately \$55,000 over its original budget in expenses, but due to a slight increase in revenue over the original budget and the reduction in cost by the police department and the Department of Public Services, the General Fund's fund balance decrease was minimized.

### **Capital Asset and Debt Administration**

At the end of 2004, the City had approximately \$2,838,000 invested in a broad range of capital assets, including buildings, police and DPS equipment, and water and sewer lines. In 2005, the City invested additional amounts for various projects, including the completion of S. Mill, relining Center St. Sewer, and 12" water main on W. Vienna Rd. The City also purchased a new truck in the Water Fund and replaced the fire-damaged 1999 Dodge Ram with a 2004 1-ton dump truck.

# **City of Clio, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year calls for a freeze in state revenue sharing but a slight increase in overall revenue. This is due to higher unit operating millage value compared to the previous year. The budget also reflects increased cost due to new contracts with the Department of Public Services and police department unions. We have not budgeted money for capital improvements and have expressed to each department head to watch expenses closely.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# City of Clio, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Assets</b>				
Cash (Note 3)	\$ 689,790	\$ 967,986	\$ 1,657,776	\$ 33,874
Due from other governmental units	130,806	-	130,806	-
Receivables:				
Customers	-	121,794	121,794	-
Special assessments	25,895	-	25,895	-
Other	20,938	-	20,938	-
Prepaid costs and other assets	1,311	-	1,311	-
Restricted assets - Unspent bond proceeds (Note 8)	138,929	147,068	285,997	-
Capital assets - Net (Note 5):				
Nondepreciated	1,176,791	61,046	1,237,837	169,800
Depreciated	810,793	1,809,536	2,620,329	-
Total assets	2,995,253	3,107,430	6,102,683	203,674
<b>Liabilities</b>				
Accounts payable	54,552	470,002	524,554	1,181
Due to other governmental units	1,909	-	1,909	-
Accrued and other liabilities	30,350	18,514	48,864	-
Noncurrent liabilities (Note 7):				
Due within one year	71,167	80,000	151,167	-
Due in more than one year	640,883	1,440,000	2,080,883	-
Total liabilities	798,861	2,008,516	2,807,377	1,181
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	1,418,017	497,650	1,915,667	169,800
Restricted:				
Streets and highways	309,299	-	309,299	-
Park and other equipment	4,339	-	4,339	-
Debt service	86,519	-	86,519	-
Program education	17,079	-	17,079	-
Sanitation collection	13,939	-	13,939	-
Unrestricted	347,200	601,264	948,464	32,693
Total net assets	<u>\$ 2,196,392</u>	<u>\$ 1,098,914</u>	<u>\$ 3,295,306</u>	<u>\$ 202,493</u>

# City of Clio, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 412,475	\$ 3,540	\$ 3,740	\$ -
Public safety	630,243	78,096	3,716	-
Public works	177,967	120,928	-	-
Highways and streets	157,692	-	176,236	330,016
Community and economic development	10,761	24,188	-	-
Recreation and culture	117,711	-	-	-
Interest on long-term debt	36,873	-	-	-
Total governmental activities	1,543,722	226,752	183,692	330,016
Business-type activities:				
Water	510,889	589,826	-	-
Sewer	400,340	379,646	-	-
Total business-type activities	911,229	969,472	-	-
Total primary government	<u>\$ 2,454,951</u>	<u>\$ 1,196,224</u>	<u>\$ 183,692</u>	<u>\$ 330,016</u>
Component unit - Downtown Development Authority	<u>\$ 6,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## General revenues:

Property taxes  
State-shared revenues  
Unrestricted investment earnings  
Franchise fees  
Miscellaneous

Total general revenues

## Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (405,195)	\$ -	\$ (405,195)	\$ -
(548,431)	-	(548,431)	-
(57,039)	-	(57,039)	-
348,560	-	348,560	-
13,427	-	13,427	-
(117,711)	-	(117,711)	-
(36,873)	-	(36,873)	-
(803,262)	-	(803,262)	-
-	78,937	78,937	-
-	(20,694)	(20,694)	-
-	58,243	58,243	-
(803,262)	58,243	(745,019)	-
-	-	-	(6,097)
784,664	-	784,664	17,416
347,756	-	347,756	-
24,753	14,027	38,780	558
23,309	-	23,309	-
25,200	-	25,200	-
1,205,682	14,027	1,219,709	17,974
402,420	72,270	474,690	11,877
1,793,972	1,026,644	2,820,616	190,616
<u>\$ 2,196,392</u>	<u>\$ 1,098,914</u>	<u>\$ 3,295,306</u>	<u>\$ 202,493</u>

# City of Clio, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	Major Funds					Other Non-	Total
	General	Major Streets	Local Streets	Public	Major Street	major	Total
	Fund	Fund	Fund	Improvements	Construction	Governmental	Governmental
	Fund	Fund	Fund	Fund	Fund	Funds	Funds
<b>Assets</b>							
Cash (Note 3)	\$ 213,283	\$ 104,654	\$ 29,929	\$ 247,180	\$ 67	\$ 91,068	\$ 686,181
Due from other funds (Note 6)	2,500	1,050	855	3,161	-	-	7,566
Due from other governmental units	40,262	29,175	6,203	-	-	-	75,640
Receivables:							
Special assessments	-	-	-	-	-	25,895	25,895
Other	17,905	-	3,033	-	-	-	20,938
Prepaid costs and other assets	548	-	-	-	-	763	1,311
Restricted assets - Unspent bond proceeds	-	-	-	-	138,929	-	138,929
<b>Total assets</b>	<b>\$ 274,498</b>	<b>\$ 134,879</b>	<b>\$ 40,020</b>	<b>\$ 250,341</b>	<b>\$ 138,996</b>	<b>\$ 117,726</b>	<b>\$ 956,460</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 49,129	\$ 1,790	\$ -	\$ -	\$ 67	\$ -	\$ 50,986
Due to other funds	4,211	855	-	-	-	-	5,066
Due to other governmental units	1,909	-	-	-	-	-	1,909
Accrued and other liabilities	20,729	229	1,655	-	-	189	22,802
Deferred revenue (Note 4)	-	-	-	-	-	25,895	25,895
<b>Total liabilities</b>	<b>75,978</b>	<b>2,874</b>	<b>1,655</b>	<b>-</b>	<b>67</b>	<b>26,084</b>	<b>106,658</b>
<b>Fund Balances</b>							
Reserved for parks and park improvements	4,165	-	-	-	-	-	4,165
Reserved for police equipment	174	-	-	-	-	-	174
Unreserved - Reported in:							
General Fund	194,181	-	-	-	-	-	194,181
Special Revenue Funds	-	132,005	38,365	250,341	-	31,018	451,729
Debt Service Funds	-	-	-	-	-	60,624	60,624
Capital Projects Funds	-	-	-	-	138,929	-	138,929
<b>Total fund balances</b>	<b>198,520</b>	<b>132,005</b>	<b>38,365</b>	<b>250,341</b>	<b>138,929</b>	<b>91,642</b>	<b>849,802</b>
<b>Total liabilities and fund balances</b>	<b>\$ 274,498</b>	<b>\$ 134,879</b>	<b>\$ 40,020</b>	<b>\$ 250,341</b>	<b>\$ 138,996</b>	<b>\$ 117,726</b>	<b>\$ 956,460</b>

# City of Clio, Michigan

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## **Governmental Funds Reconciliation of Fund Balances of Governmental Funds to the Statement of Net Assets June 30, 2005**

<b>Total Fund Balances for Governmental Funds</b>	\$ 849,802
Capital assets used in governmental activities are not financial resources and are not reported in the funds	1,895,334
Revenue-sharing due from the State not received within 60 days of year end is not available currently and is not recorded in the funds	55,166
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	25,895
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(686,719)
Accrued interest is not due and payable in the current period and is not reported in the funds	(7,306)
Internal Service Fund is included as part of governmental activities	<u>64,220</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 2,196,392</u></b>



# City of Clio, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	Major Funds						
	General Fund	Major Streets Fund	Local Streets Fund	Public Improve-ments Fund	Major Street Construction Fund	Other Non-major Govern-mental Funds	Total Govern-mental Funds
<b>Revenue</b>							
Property taxes	\$ 784,664	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 784,664
Licenses and permits	61,775	-	-	-	-	-	61,775
Federal sources	-	-	-	-	330,016	-	330,016
State sources	292,590	137,738	38,348	-	-	-	468,676
Charges for services	13,830	-	-	-	-	119,928	133,758
Fines and forfeitures	5,561	-	-	-	-	-	5,561
Interest	6,995	1,916	442	8,855	2,852	3,672	24,732
Other	74,456	3,232	2,513	-	-	8,606	88,807
<b>Total revenue</b>	<b>1,239,871</b>	<b>142,886</b>	<b>41,303</b>	<b>8,855</b>	<b>332,868</b>	<b>132,206</b>	<b>1,897,989</b>
<b>Expenditures</b>							
General government	386,468	17,598	9,239	-	-	-	413,305
Public safety	629,612	-	-	-	-	-	629,612
Public works	108,922	-	-	-	-	105,989	214,911
Highway and streets	-	51,800	39,816	-	420,540	-	512,156
Recreation and cultural	90,622	-	-	-	-	-	90,622
Civic buildings	10,757	-	-	-	-	-	10,757
Debt service	9,103	69,149	9,030	-	-	11,045	98,327
<b>Total expenditures</b>	<b>1,235,484</b>	<b>138,547</b>	<b>58,085</b>	<b>-</b>	<b>420,540</b>	<b>117,034</b>	<b>1,969,690</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>4,387</b>	<b>4,339</b>	<b>(16,782)</b>	<b>8,855</b>	<b>(87,672)</b>	<b>15,172</b>	<b>(71,701)</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in (Note 6)	-	36,649	5,425	-	-	-	42,074
Transfers out (Note 6)	(32,199)	(5,425)	-	-	(30,450)	-	(68,074)
<b>Total other financing sources (uses)</b>	<b>(32,199)</b>	<b>31,224</b>	<b>5,425</b>	<b>-</b>	<b>(30,450)</b>	<b>-</b>	<b>(26,000)</b>
<b>Net Change in Fund Balances</b>	<b>(27,812)</b>	<b>35,563</b>	<b>(11,357)</b>	<b>8,855</b>	<b>(118,122)</b>	<b>15,172</b>	<b>(97,701)</b>
<b>Fund Balances - Beginning of year</b>	<b>226,332</b>	<b>96,442</b>	<b>49,722</b>	<b>241,486</b>	<b>257,051</b>	<b>76,470</b>	<b>947,503</b>
<b>Fund Balances - End of year</b>	<b>\$ 198,520</b>	<b>\$ 132,005</b>	<b>\$ 38,365</b>	<b>\$ 250,341</b>	<b>\$ 138,929</b>	<b>\$ 91,642</b>	<b>\$ 849,802</b>

# City of Clio, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

**Net Change in Fund Balances - Total Governmental Funds** **\$ (97,701)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	398,207
Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds (GASB No. 33)	55,166
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(7,136)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	61,101
Changes in accumulated employee vacation pay are recorded when earned in the statement of activities	(622)
Internal Service Funds are also included as governmental activities	<u>(6,595)</u>

**Change in Net Assets of Governmental Activities** **\$ 402,420**

# City of Clio, Michigan

## Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Net Assets June 30, 2005

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Total	
<b>Assets</b>				
Cash (Note 3)	\$ 838,542	\$ 129,444	\$ 967,986	\$ 3,609
Customer receivables	68,619	53,175	121,794	-
Restricted assets - Unspent bond proceeds	97,026	50,042	147,068	-
Capital assets - Net (Note 5):				
Nondepreciated	4,179	56,867	61,046	-
Depreciated	1,473,202	336,334	1,809,536	92,250
Total assets	2,481,568	625,862	3,107,430	95,859
<b>Liabilities</b>				
Accounts payable	453,877	16,125	470,002	3,566
Accrued and other liabilities	12,404	6,110	18,514	242
Due to other funds	-	-	-	2,500
Noncurrent liabilities (Note 7):				
Due within one year	69,839	10,161	80,000	9,448
Due in more than one year	1,235,642	204,358	1,440,000	15,883
Total liabilities	1,771,762	236,754	2,008,516	31,639
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	268,926	228,724	497,650	66,919
Unrestricted	440,880	160,384	601,264	(2,699)
Total net assets	<u>\$ 709,806</u>	<u>\$ 389,108</u>	<u>\$ 1,098,914</u>	<u>\$ 64,220</u>

# City of Clio, Michigan

## Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
<b>Operating Revenue</b>				
Water sales	\$ 540,165	\$ -	\$ 540,165	\$ -
Sewage disposal	-	334,202	334,202	-
Rental income	-	-	-	98,060
Other revenue	48,266	42,737	91,003	30,293
Total operating revenue	588,431	376,939	965,370	128,353
<b>Operating Expenses</b>				
Cost of water	201,628	-	201,628	-
Cost of sewage disposal	-	169,041	169,041	-
Operation and maintenance	224,960	191,403	416,363	104,043
Depreciation	47,636	33,450	81,086	54,580
Total operating expenses	474,224	393,894	868,118	158,623
<b>Operating Income (Loss)</b>	114,207	(16,955)	97,252	(30,270)
<b>Nonoperating Revenue (Expenses)</b>				
Customer connection fees	1,395	2,707	4,102	-
Interest income	8,333	5,694	14,027	21
Interest expense	(36,665)	(6,446)	(43,111)	(2,346)
Total nonoperating revenue (expenses)	(26,937)	1,955	(24,982)	(2,325)
<b>Income (Loss) Before Transfers</b>	87,270	(15,000)	72,270	(32,595)
<b>Transfers in (Note 6)</b>	-	-	-	26,000
<b>Change in Net Assets</b>	87,270	(15,000)	72,270	(6,595)
<b>Net Assets - Beginning of year</b>	622,536	404,108	1,026,644	70,815
<b>Net Assets - End of year</b>	<u>\$ 709,806</u>	<u>\$ 389,108</u>	<u>\$ 1,098,914</u>	<u>\$ 64,220</u>

# City of Clio, Michigan

## Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Cash Flows Year Ended June 30, 2005

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 521,770	\$ 321,026	\$ 842,796	\$ 98,060
Payments to suppliers	(298,376)	(275,036)	(573,412)	(92,640)
Payments to employees	(118,844)	(84,975)	(203,819)	(11,848)
Other receipts	48,266	42,737	91,003	30,293
Net cash provided by operating activities	152,816	3,752	156,568	23,865
<b>Cash Flows from Capital and Related Financing Activities</b>				
Benefit charges received from customers	1,395	2,707	4,102	-
Proceeds from issuance of long-term debt	735,481	214,519	950,000	33,513
Interfund activity related to capital items	-	-	-	26,000
Purchase of capital assets	(206,760)	(81,861)	(288,621)	(39,825)
Principal and interest paid on capital debt	(123,665)	(246,446)	(370,111)	(46,328)
Net cash provided by (used in) capital and related financing activities	406,451	(111,081)	295,370	(26,640)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	8,333	5,694	14,027	21
<b>Net Increase (Decrease) in Cash</b>	567,600	(101,635)	465,965	(2,754)
<b>Cash - Beginning of year</b>	367,968	281,121	649,089	6,363
<b>Cash - End of year</b>	<u><b>\$ 935,568</b></u>	<u><b>\$ 179,486</b></u>	<u><b>\$ 1,115,054</b></u>	<u><b>\$ 3,609</b></u>
<b>Balance Sheet Classification of Cash</b>				
Cash	\$ 838,542	\$ 129,444	\$ 967,986	\$ 3,609
Restricted assets - Unspent bond proceeds	97,026	50,042	147,068	-
<b>Total cash</b>	<u><b>\$ 935,568</b></u>	<u><b>\$ 179,486</b></u>	<u><b>\$ 1,115,054</b></u>	<u><b>\$ 3,609</b></u>

# City of Clio, Michigan

## **Proprietary Funds** **Enterprise Funds and Internal Service Fund** **Statement of Cash Flows (Continued)** **Year Ended June 30, 2005**

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ 114,207	\$ (16,955)	\$ 97,252	\$ (30,270)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	47,636	33,450	81,086	54,580
Changes in assets and liabilities:				
Receivables	(18,395)	(13,176)	(31,571)	-
Accounts payable	4,216	(2,557)	1,659	2,026
Accrued and other liabilities	5,152	2,990	8,142	29
Due to other funds	-	-	-	(2,500)
Net cash provided by operating activities	<u><b>\$ 152,816</b></u>	<u><b>\$ 3,752</b></u>	<u><b>\$ 156,568</b></u>	<u><b>\$ 23,865</b></u>

**Noncash Activities** - During the year ended June 30, 2005, the City did not have any noncash transactions.

# City of Clio, Michigan

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## **Fiduciary Funds Agency Fund Statement of Assets and Liabilities June 30, 2005**

### **Assets**

Cash (Note 3)	\$ 3,844
Due from other governmental units	<u>1,605</u>

Total assets	<u><u>\$ 5,449</u></u>
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### **Liabilities - Other**

<u><u>\$ 5,449</u></u>
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### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Clio (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Clio:

#### **Reporting Entity**

The City is governed by an elected seven-member commission (Board of Commissioners). As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Clio and its component unit, the Downtown Development Authority. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

The Downtown Development Authority (the "Authority") is reported within the component unit column in the statement of net assets and the statement of activities. It is reported in a separate column to emphasize that it is legally separate from the City. The Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, consisting of nine individuals, is selected by the City Commission.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.



### **Note I - Summary of Significant Accounting Policies (Continued)**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets and Local Streets Funds** - The Major Streets and Local Streets Funds account for repairs and maintenance of streets in the City which are financed primarily through State-shared revenues and miscellaneous local sources.

**Public Improvements Fund** - The Public Improvements Fund accounts for the development, construction, and improvements to various properties in the City, financed through various local sources.

**Major Street Construction Fund** - The Major Street Construction Fund is used to account for the development, construction, and improvements of major and local streets financed by the issuance of debt.

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system, which provides services to citizens, financed primarily by a user charge for the provision of these services.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system, which provides services to citizens, financed primarily by a user charge for the provision of these services.

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

### **Note I - Summary of Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. These taxes are considered delinquent on September 30, at which time penalties and interest are assessed.

The 2004 taxable valuation of the City totaled approximately \$43,582,000, on which taxes levied consisted of 17.000 mills for operating purposes, resulting in approximately \$785,000 for the City, including various administrative fees and delinquent tax revenues.

In addition, the component unit's taxable value is approximately \$8,684,000 at a millage rate of 2 mills, resulting in taxes levied of approximately \$17,000 for its operations. This amount is recognized in the statement of activities as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits** - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

### Note I - Summary of Significant Accounting Policies (Continued)

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Unspent bond proceeds of the Major Street Construction, Water, and Sewer Funds are required to be set aside for construction; therefore, they are classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. As allowable under GASB Statement No. 34, the City has elected not to retroactively record infrastructure assets acquired prior to July 1, 2003. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Governmental activities:

Buildings	50 years
Office and other equipment	3 to 10 years
Land improvements	15 years
Roads and sidewalks	20 years
Vehicles and related equipment	5 to 7 years

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Business-type activities:

Water and sewer transmission lines	50 years
Treatment facilities	7 to 35 years
Machinery and equipment	7 years

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused vacation benefits. All vacation is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### Note 2 - Stewardship, Compliance, and Accountability

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The City records the activities relating to the construction code in the General Fund. A summary of the current year activity, including an allocation of estimated overhead costs and cumulative shortfall, is as follows:

Shortfall at June 30, 2004	\$	(28,749)
Current year building permit revenue		18,333
Related expenses:		
Direct costs	\$	16,000
Estimated indirect costs		<u>1,575</u>
Total construction code expenses		<u>17,575</u>
Shortfall at June 30, 2005	\$	<u>(27,991)</u>

### Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in all of the investment vehicles listed above. The deposits and investment policies are in accordance with statutory authority.

The City had no investments during the year ended June 30, 2005.

### **Note 3 - Deposits (Continued)**

#### **Custodial Credit Risk of Bank Deposits**

The City's cash deposits are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,669,000 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

In addition, the component unit's cash deposits are subject to custodial credit risk. The component unit does not have a deposit policy for custodial credit risk. At year end, all of the bank deposits were fully covered by the FDIC insurance.

### **Note 4 - Deferred Revenue**

On the fund-based statements, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The total deferred revenue for governmental funds was unavailable at June 30, 2005.

On the government-wide statements, since reporting is based on the full accrual basis of accounting, both governmental and business-type activities report only the amount of unearned revenue as deferred.

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Reclassifications	Additions	Disposals	Balance June 30, 2005
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 462,026	\$ -	\$ -	\$ -	\$ 462,026
Construction in progress	294,225	-	420,540	-	714,765
Subtotal	756,251	-	420,540	-	1,176,791
Capital assets being depreciated:					
Buildings	684,669	-	4,750	-	689,419
Office and other equipment	398,164	-	14,294	-	412,356
Land improvements	18,850	-	-	-	18,850
Roads and sidewalks	163,777	-	5,248	-	169,025
Vehicles and related equipment	217,335	-	39,826	26,770	230,391
Subtotal	1,482,795	-	64,118	26,770	1,520,041
Accumulated depreciation:					
Buildings	270,868	-	13,396	-	284,264
Office and other equipment	199,943	-	43,017	-	242,960
Land improvements	1,257	-	1,257	-	2,514
Roads and sidewalks	8,189	-	8,714	-	16,903
Vehicles and related equipment	154,657	-	34,720	26,770	162,607
Subtotal	634,914	-	101,104	26,770	709,248
Net capital assets being depreciated	847,881	-	(36,986)	-	810,793
Net capital assets	<u>\$ 1,604,132</u>	<u>\$ -</u>	<u>\$ 383,554</u>	<u>\$ -</u>	<u>\$ 1,987,584</u>
<b>Business-type Activities</b>					
Capital assets not being depreciated -					
Construction in progress	\$ 35,162	\$ (31,352)	\$ 57,236	\$ -	\$ 61,046
Capital assets being depreciated:					
Water and sewer transmission lines	1,350,489	31,352	633,023	-	2,014,864
Treatment facilities	298,519	-	-	-	298,519
Machinery and equipment	142,790	-	27,501	-	170,291
Subtotal	1,791,798	31,352	660,524	-	2,483,674
Accumulated depreciation:					
Water and sewer transmission lines	361,346	-	44,312	-	405,658
Treatment facilities	186,439	-	12,448	-	198,887
Machinery and equipment	45,267	-	24,326	-	69,593
Subtotal	593,052	-	81,086	-	674,138
Net capital assets being depreciated	1,198,746	31,352	579,438	-	1,809,536
Net capital assets	<u>\$ 1,233,908</u>	<u>\$ -</u>	<u>\$ 636,674</u>	<u>\$ -</u>	<u>\$ 1,870,582</u>



### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$	5,844
Public safety		338
Public works		101
Highways and streets		8,714
Recreation and culture		31,527
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset		<u>54,580</u>

Total governmental activities	\$	<u>101,104</u>
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Business-type activities:

Water	\$	47,636
Sewer		<u>33,450</u>

Total business-type activities	\$	<u>81,086</u>
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**Construction Commitments** - The City has active construction projects at year end as follows:

	Total Commitment	Spent to Date	Remaining Commitment
Street projects	\$ 780,214	\$ 745,214	\$ 35,000
Water main project	636,841	636,841	-
Sewer project	<u>100,000</u>	<u>56,867</u>	<u>43,133</u>
Total	<u>\$ 1,517,055</u>	<u>\$ 1,438,922</u>	<u>\$ 78,133</u>

The component units' capital assets consisted of land totaling \$169,800. There were no purchases or disposals during the year ended June 30, 2005.

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Motor Pool Fund	\$ 2,500
Special Revenue Fund - Major Streets Fund	General Fund	1,050
Special Revenue Fund - Local Streets Fund	Major Streets Fund	855
Special Revenue Fund - Public Improvements Fund	General Fund	<u>3,161</u>
Total governmental funds		<u><u>\$ 7,566</u></u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Streets Fund (2)	\$ 6,199
	Internal Service Fund (1)	<u>26,000</u>
Total General Fund		32,199
Major Streets Fund	Local Streets Fund (2)	5,425
Major Street Construction	Major Streets Fund (1)	<u>30,450</u>
Total		<u><u>\$ 68,074</u></u>

(1) Transfer for capital improvements

(2) Transfer for general operations

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General Obligation Bonds:							
1998 Act 175 Bonds - Major Streets:							
Amount of issue: \$360,000	4.45% -						
Maturing through 2013	5.0%	\$25,000	\$ 225,000	\$ -	\$ (25,000)	\$ 200,000	\$ 25,000
2000 General Obligation Bonds:							
Amount of issue: \$85,000	5.3% -	\$5,000 -					
Maturing through 2015	7.0%	\$10,000	65,000	-	(5,000)	60,000	5,000
2004 General Obligation Bonds:							
Amount of issue: \$345,000	3.0% -	\$20,000 -					
Maturing through 2019	4.60%	\$30,000	345,000	-	(20,000)	325,000	20,000
Installment purchase agreements:							
Various equipment and auto agreements:							
Amount of issue: \$100,195	3.28% -	\$513 -					
Maturing through 2010	6.72%	\$9,448	35,800	33,513	(43,982)	25,331	9,448
2002 installment purchase agreements:							
Amount of issue: \$23,367		\$3,165 -					
Maturing through 2006	4.58%	\$6,106	9,266	-	(6,101)	3,165	3,165
2000 Special Assessment Bonds:							
Amount of issue: \$120,000	5.3% -	\$5,000 -					
Maturing through 2014	7.0%	\$10,000	100,000	-	(5,000)	95,000	5,000
Total bonds and installment purchase agreements			780,066	33,513	(105,083)	708,496	67,613
Accumulated compensated absences			2,932	3,554	(2,932)	3,554	3,554
Total governmental activities			\$ 782,998	\$ 37,067	\$ (108,015)	\$ 712,050	\$ 71,167

# City of Clio, Michigan

## Notes to Financial Statements June 30, 2005

### Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
General obligation bonds:							
2003 Capital Improvement Bonds:							
Amount of issue: \$640,000	3.125% -	\$35,000 -					
Maturing through 2018	4.60%	\$55,000	\$ 605,000	\$ -	\$ (35,000)	\$ 570,000	\$ 35,000
2004 Capital Improvement Bonds:							
Amount of issue: \$300,000							
Maturing through 2005	1.875%	\$300,000	300,000	-	(300,000)	-	-
2005 Capital Improvement Bonds:							
Amount of issue: \$950,000	2.95% -	\$45,000 -					
Maturing through 2020	4.60%	\$85,000	-	950,000	-	950,000	45,000
Total business-type activities			\$ 905,000	\$ -	\$ (335,000)	\$ 1,520,000	\$ 80,000

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 67,613	\$ 32,020	\$ 99,633	\$ 80,000	\$ 60,760	\$ 140,760
2007	65,605	28,897	94,502	85,000	58,330	143,330
2008	65,971	25,858	91,829	85,000	55,703	140,703
2009	63,793	22,905	86,698	90,000	52,975	142,975
2010	60,514	20,107	80,621	95,000	49,970	144,970
2011-2015	275,000	59,083	334,083	535,000	192,850	727,850
2016-2020	110,000	12,978	122,978	550,000	69,405	619,405
Total	\$ 708,496	\$ 201,848	\$ 910,344	\$ 1,520,000	\$ 539,993	\$ 2,059,993

### Note 8 - Restricted Assets

The balances of the restricted asset accounts relate to unspent bond proceeds and related interest in the Major Street Construction, Water, and Sewer Funds. These amounts are required to be set aside for construction of various specific road improvements as well as water and sewer lines.

### **Note 9 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance relating to risks associated with property loss, torts, and errors and omissions, as well as medical benefits other than dental and optical coverage. The City participates in the Michigan Municipal League for claims relating to employee injuries (workers' compensation). The City is uninsured for employee dental and optical claims, for which the City reimburses each employee annually, up to a maximum of \$750 per employee. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Joint Ventures**

The City is a member of the Clio Area Fire Authority, which provides fire protection services to the residents of the City of Clio, Vienna Township, and Thetford Township. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$43,500 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Clio Area Fire Authority can be obtained from the administrative offices at 3400 W. Vienna Road, Clio, Michigan 48420.

The City is a member of the Clio Area Library, which provides library services to the residents of the City of Clio, Vienna Township, and Thetford Township. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$6,100 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Clio Area Library can be obtained from the administrative offices at 3400 W. Vienna Road, Clio, Michigan 48420.

The investments in joint ventures are not recorded in the financial statements as the City does not hold a definable interest in either of the entities and would not be able to collect payment upon terminating the relationship.

### Note 11 - Pension Plan

**Plan Description** - Beginning during the year ended June 30, 2005, the City participates in the Michigan Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The City is required to contribute 10 percent of the covered salaries and wages, while the employees contributed any excess amounts as determined by the actuary (approximately 0.92 percent in 2005).

**Annual Pension Cost** - For the year ended June 30, 2005, the City's annual pension cost of \$43,625 (employer and employee amount of \$39,949 and \$3,676, respectively) for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at August 1, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return, (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases (4.5 percent per year representing annual inflation), and (c) the assumption that benefits will increase 2.5 percent per year (annually) after retirement, for certain retirees. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Fiscal Year	
	Ended June 30	
Annual pension costs (APC)	\$	43,625
Percentage of APC contributed		100%
Net pension obligation	\$	-

### Note 11 - Pension Plan (Continued)

	August 1, 2004
Actuarial value of assets	\$ -
Actuarial Accrued Liability (AAL) (entry age)	403,570
Unfunded AAL (UAAL)	(403,570)
Funded ratio	0%
Covered payroll	\$ 484,417
UAAL as a percentage of covered payroll	(83)%

### Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Currently, two retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2005, the City made payments for postemployment health benefit premiums of approximately \$13,500. The government obtains health care coverage through private insurers.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

## **Required Supplemental Information**

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# City of Clio, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenue</b>				
<b>Property Taxes</b>				
Real and personal property taxes	\$ 763,700	\$ 755,223	\$ 754,545	\$ (678)
Property tax interest and penalties	1,500	3,730	3,710	(20)
Administrative fees - Taxes	23,500	26,450	26,409	(41)
Total property taxes	788,700	785,403	784,664	(739)
<b>Licenses and Permits</b>				
Building permit fees	22,000	19,500	18,333	(1,167)
Ordinance fees	35,000	40,252	40,252	-
Other licenses and permits	800	3,370	3,190	(180)
Total licenses and permits	57,800	63,122	61,775	(1,347)
<b>Federal Sources</b>	-	-	-	-
<b>State Sources</b>	295,557	293,817	292,590	(1,227)
<b>Charges for Services</b>	14,010	13,627	13,830	203
<b>Fines and Forfeitures</b>	4,800	5,450	5,561	111
<b>Interest</b>	4,000	7,100	6,995	(105)
<b>Other</b>				
Franchise fees	20,700	22,640	23,309	669
Rent	23,500	24,007	24,188	181
Reimbursements	12,580	20,201	24,228	4,027
Donations	900	2,600	2,581	(19)
Other	50	150	150	-
Total other	57,730	69,598	74,456	4,858
<b>Operating Transfers In</b>	20	112	-	(112)
Total revenue	1,222,617	1,238,229	1,239,871	1,642

# City of Clio, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Expenditures</b>				
<b>General Government</b>				
Office of the mayor	\$ 2,667	\$ 2,346	\$ 2,349	\$ (3)
Board of Review	1,180	1,189	1,189	-
Commission	19,861	14,309	14,679	(370)
Elections	6,200	3,772	3,836	(64)
Assessor	19,347	20,228	20,846	(618)
Clerk	50,058	68,427	77,078	(8,651)
Treasurer	32,520	31,580	31,664	(84)
City Hall	49,687	63,218	67,469	(4,251)
City shop	15,893	13,725	13,975	(250)
Administration	92,193	76,747	76,847	(100)
Legal services	32,400	60,940	62,628	(1,688)
Other	-	13,670	13,908	(238)
Total general government	322,006	370,151	386,468	(16,317)
<b>Public Safety</b>				
Police	607,422	558,826	570,076	(11,250)
Fire	39,500	43,536	43,536	-
Inspection services	18,700	16,281	16,000	281
Total public safety	665,622	618,643	629,612	(10,969)
<b>Public Works</b>				
Mosquito control	-	1,292	1,291	1
Public service	78,149	58,122	58,234	(112)
Street lighting	31,000	35,593	37,141	(1,548)
Planning	7,980	9,216	9,215	1
Zoning	1,068	2,028	2,041	(13)
Storm water regulations	1,000	1,000	1,000	-
Total public works	119,197	107,251	108,922	(1,671)
<b>Recreation and Cultural</b>				
Senior citizen programs	5,600	5,600	5,600	-
Parks	48,280	54,159	59,630	(5,471)
Library	6,083	6,083	6,083	-
Bike path	24,962	17,568	19,309	(1,741)
Total recreation and cultural	84,925	83,410	90,622	(7,212)
<b>Civic Buildings</b>				
Roger's Lodge	10,600	8,148	8,339	(191)
500 South Mill Street	1,000	2,418	2,418	-
Total civic buildings	11,600	10,566	10,757	(191)

# City of Clio, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b><u>Expenditures</u></b> (Continued)				
<b>Debt Service</b>	\$ 9,114	\$ 9,104	\$ 9,103	\$ 1
<b>Operating Transfers Out</b>	-	30,149	32,199	(2,050)
Total expenditures	<u>1,212,464</u>	<u>1,229,274</u>	<u>1,267,683</u>	<u>(38,409)</u>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	10,153	8,955	(27,812)	<u><u>\$ (36,767)</u></u>
<b>Fund Balance - Beginning of year</b>	<u>312,142</u>	<u>226,332</u>	<u>226,332</u>	
<b>Fund Balance - End of year</b>	<u><u>\$ 322,295</u></u>	<u><u>\$ 235,287</u></u>	<u><u>\$ 198,520</u></u>	

# City of Clio, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Streets Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State sources	\$ 129,500	\$ 139,270	\$ 137,738	\$ (1,532)
Interest	500	1,697	1,916	219
Other revenue	-	3,230	3,232	2
Transfer in	4,871	35,599	36,649	1,050
Total revenues	134,871	179,796	179,535	(261)
<b>Expenditures</b>				
General government	11,750	16,816	17,598	(782)
Highways and streets	170,211	51,391	51,800	(409)
Debt service	69,711	69,149	69,149	-
Operating transfers out	-	4,570	5,425	(855)
Total expenditures	251,672	141,926	143,972	(2,046)
<b>Excess of Revenue Over (Under) Expenditures</b>	(116,801)	37,870	35,563	<b>\$ (2,307)</b>
<b>Fund Balance - Beginning of year</b>	195,660	96,442	96,442	
<b>Fund Balance - End of year</b>	<b>\$ 78,859</b>	<b>\$ 134,312</b>	<b>\$ 132,005</b>	

# City of Clio, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Local Streets Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State sources	\$ 39,067	\$ 39,067	\$ 38,348	\$ (719)
Interest	800	446	442	(4)
Other revenue	-	2,512	2,513	1
Operating transfers in	2,993	4,570	5,425	855
Total revenues	42,860	46,595	46,728	133
<b>Expenditures</b>				
General government	3,907	8,477	9,239	(762)
Highways and streets	27,022	39,375	39,816	(441)
Debt service	9,030	9,030	9,030	-
Total expenditures	39,959	56,882	58,085	(1,203)
<b>Excess of Revenue Over (Under) Expenditures</b>	2,901	(10,287)	(11,357)	<b><u>\$ (1,070)</u></b>
<b>Fund Balance - Beginning of year</b>	21,586	49,722	49,722	
<b>Fund Balance - End of year</b>	<b><u>\$ 24,487</u></b>	<b><u>\$ 39,435</u></b>	<b><u>\$ 38,365</u></b>	

# City of Clio, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Public Improvements Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue - Interest</b>	\$ 3,300	\$ 7,707	\$ 8,855	\$ 1,148
<b>Expenditures - General government</b>	<u>3,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenue Over Expenditures</b>	-	7,707	8,855	<u><b>\$ 1,148</b></u>
<b>Fund Balance - Beginning of year</b>	<u>241,871</u>	<u>241,486</u>	<u>241,486</u>	
<b>Fund Balance - End of year</b>	<u><b>\$ 241,871</b></u>	<u><b>\$ 249,193</b></u>	<u><b>\$ 250,341</b></u>	

# City of Clio, Michigan

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## **Note to Required Supplemental Information June 30, 2005**

**Budgetary Information** - The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as an "other financing sources (uses)." Unexpended appropriations lapse at year end.

The City follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The budget officer shall prepare and submit to the Commission, on or before the first regular meeting in April of each year, a budget document covering the next fiscal year tabulating the recommendations of several department heads and officials.
2. Not later than the third Monday of May, the Commission shall, by resolution, adopt the budget for the net fiscal year.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and each of the major Special Revenue Funds budgets as adopted by the City Commission is included in the required supplemental information. There was some expenditure budget overrun noted in the General, Major Streets, and Local Streets Funds in the current year, the most significant of which, relating to the General Fund's general government, public safety, and recreation and culture, were a result of accruals at year end that were not reflected in the expenditure budgets. A comparison of the actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the City is available at the city clerk's office.

## **Other Supplemental Information**

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# City of Clio, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	<u>Special Revenue Funds</u>			Total
	PEG	Sanitation Collection	Special Assessment Debt Service	Nonmajor Governmental Funds
<b>Assets</b>				
Cash	\$ 17,079	\$ 14,128	\$ 59,861	\$ 91,068
Receivables - Special assessments	-	-	25,895	25,895
Prepaid costs and other assets	-	-	763	763
Total assets	<u>\$ 17,079</u>	<u>\$ 14,128</u>	<u>\$ 86,519</u>	<u>\$ 117,726</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accrued and other liabilities	\$ -	\$ 189	\$ -	\$ 189
Deferred revenue	-	-	25,895	25,895
Total liabilities	-	189	25,895	26,084
<b>Fund Balances - Unreserved and undesignated</b>	<u>17,079</u>	<u>13,939</u>	<u>60,624</u>	<u>91,642</u>
Total liabilities and fund balances	<u>\$ 17,079</u>	<u>\$ 14,128</u>	<u>\$ 86,519</u>	<u>\$ 117,726</u>

# City of Clio, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2005

	<u>Special Revenue Funds</u>			Total
		Sanitation	Special	Nonmajor
	PEG	Collection	Assessment	Governmental
			Debt Service	Funds
<b>Revenue</b>				
Charges for services	\$ -	\$ 119,928	\$ -	\$ 119,928
Interest	304	-	3,368	3,672
Other	<u>1,452</u>	<u>-</u>	<u>7,154</u>	<u>8,606</u>
Total revenue	1,756	119,928	10,522	132,206
<b>Expenditures</b>				
Public works	-	105,989	-	105,989
Debt service	<u>-</u>	<u>-</u>	<u>11,045</u>	<u>11,045</u>
Total expenditures	<u>-</u>	<u>105,989</u>	<u>11,045</u>	<u>117,034</u>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	1,756	13,939	(523)	15,172
<b>Fund Balances - Beginning of year</b>	<u>15,323</u>	<u>-</u>	<u>61,147</u>	<u>76,470</u>
<b>Fund Balances - End of year</b>	<u><b>\$ 17,079</b></u>	<u><b>\$ 13,939</b></u>	<u><b>\$ 60,624</b></u>	<u><b>\$ 91,642</b></u>

September 12, 2005

Honorable Mayor and Members  
of the City Commission  
City of Clio  
505 West Vienna Street  
Clio, Michigan 48420

Dear Mayor and Commission Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2005. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. For your information, we have also provided several legislative issues that could affect the City.

## **ACCOUNTING AND RECORD KEEPING**

### **Act 51 Money**

As mentioned in the prior years, the most recent Act 51 report indicate that the cumulative expenditures for nonmotorized improvements do not exceed 10% of current year's Act 51 funding from the Michigan Transportation Fund, since the cumulative amounts do not include figures for 1993 through 1997. The City was notified by the State of Michigan to complete this form properly. The City has addressed this matter via a conversation with the State; however no response has been received as of current date.

### **Other Accounting Items**

The City should print out the accounts receivable on a monthly basis relating to its Water and Sewer Funds. Currently, the reports are not printed and the system does not allow the user to "go back in time" and agree the reports to the general ledger balances as of a specific date.

## **REVENUE SHARING**

State shared revenue accounts for approximately 23% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Honorable Mayor and Members of the City Commission  
City of Clio

September 12, 2005

## REVENUE SHARING (CONTINUED)

### 2005

As you are probably aware, the Governor's budget for the State's 2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2005 fiscal year at the prior year levels. This plan was approved by the Michigan legislature and signed by the Governor.

In February 2005, the Governor did unveil an Executive Order to remedy a \$375 million shortfall for the State's 2005 budget and it appears to propose no further cuts to revenue sharing. The Executive Order was rejected by the Michigan Legislature and negotiations continue. We will keep the City updated on further developments.

### 2006

The Governor also introduced her 2006 budget with a \$773 million shortfall in February 2005. At this time, the budgeted amount for revenue sharing in 2006 is approximately the same as the 2005 funding level. The details on how the monies will be distributed on an individual community basis are yet to be confirmed.

The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2001.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	189,154	161,127	350,281	-
2002	177,091	162,768	339,859	(10,422)
2003	160,070	165,524	325,594	(24,687)
2004	128,903	163,726	292,629	(57,652)
2005	121,806	167,633	289,439	(60,842)

We will continue to update the City as future developments occur.

Honorable Mayor and Members of the City Commission  
City of Clio

September 12, 2005

## **TRANSPORTATION MATTERS**

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were 4% behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. The lower than anticipated collections could impact the City's fiscal year 2004/2005 and 2005/2006 budgets.

## **MUNICIPAL FINANCE ACT - REMINDER**

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities and authorities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. The filing will serve as a pre-approval for debt issuances. The current filing is due within six months of the City's year end (December 31, 2005) and is good through the extended due date of the financial statement filings. The Downtown Development Authority should file as well with the same due dates.

We would like to thank the City, in particular Don Dowell and Shelly King, and all those involved with the audit process, for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the opportunity to be of service.

Very truly yours,

**PLANTE & MORAN, PLLC**



David H. Helisek



Martin J. Olejnik